Personal Taxpayer Series
IR172

Inland Revenue

Income tax and company cars

A short guide to the taxation of company cars

We produce a wide range of leaflets, booklets and helpsheets, each designed to explain a different aspect of the tax and National Insurance contribution (NICs) systems in plain English, and to assist in the completion of tax and NICs returns. Most are free. Those referred to in this leaflet, or which you might also find useful, are listed below.

480	Expenses and Benefits. A Tax Guide
490(1998)	Employee Travel. A tax and NICs guide for employers
IR161	Tax relief for employees' business travel (short guide)
CA33	Cars and Fuel Manual
CWG5	Class 1A National Insurance contributions on benefits in kind - a prelimilary guide to proposed changes for 2000/2001

Our 'Catalogue of leaflets and booklets' lists the publications you can get from Inland Revenue Enquiry Centres and Tax Offices. The addresses of Tax Offices are in your local phone book under 'Inland Revenue'. Most offices are open to the public from 8.30am to 4.30pm, Monday to Friday, and some are also open outside these hours.

Your local library or Citizens' Advice Bureau may also have copies of our leaflets.

Employers can get the 480, 490 and CA33 booklets and other employer forms and leaflets from the Employer's Orderline on **0845 7 646 646** from 8am to 8pm, Monday to Friday, and 10am to 1pm on Saturdays. Orderline material is also included on the Employer's CD ROM, available from the Orderline.

Alternatively, they can be downloaded from our Internet web site at **www.inlandrevenue.gov.uk**

This leaflet provides a short guide to the tax treatment of company cars. It reflects the changes introduced from 6 April 1999.

It combines and updates the guidance previously given in leaflets IR132 'Taxation of company cars from 6 April 1994: employers' guide' and IR133 'Income tax and company cars from 6 April 1994: a guide for employees'.

What is a company car?

It is a car made available by an employer (including a car provided under a leasing arrangement) for the private use of a director or employee, or a member of his or her family or household. Private use includes ordinary commuting journeys.

A car made available by a third party will also count as a company car if it is provided by reason of the employee's employment.

Motor cycles, invalid carriages, and vans or other commercial vehicles are not 'company cars'.

Who has to pay tax on a company car?

Employees
You have to pay tax on any benefit in kind you receive, including your company car, if you are an employee earning at a rate of £8,500 a year or more, or are a director. Your earnings for this test include your wages or salary, payments for business expenses and the value of benefits such as the company car and private medical insurance.

The term 'employee' is used to cover both directors and employees throughout the rest of this leaflet. The amount on which employees have to pay tax is referred to as the 'car benefit'.

Employers
If you are an employer and you provide company cars for employees, you may be liable to pay Class 1A National Insurance contributions (NICs) on the car benefit (see page 9).

More detailed information on the income tax and NICs treatment of cars and fuel is contained in Inland Revenue Booklets

- 480 - Expenses and Benefits. A Tax Guide

- CA33 - Cars and Fuel Manual (an employers' guide to paying Class 1A National Insurance contributions on cars and fuel)

How is the car benefit calculated?

Since 6 April 1994, the car benefit has been based on the '**price**' of the car (see pages 2-4). Prior to that date the car benefit was determined by reference to scale charges which depended on the car's engine size, or original market value.

The maximum car benefit is 35 per cent of the 'price' of the car but it may be lower depending on

- the amount of **business mileage** driven in the car (see pages 5-6)
- the **age** of the car (see page 6)
- **periods when the car is unavailable** for private use (see pages 6-7)
- **payments made by employees for private use** (see page 7).

A further, separate, charge is made if the employee is also provided with **fuel for private use** (see page 8).

What is the price of a car for tax purposes?

The 'price' of the car for tax purposes will usually be the total of

- the UK list price of the car published by the manufacturer, importer or distributor on the day before the date of registration
- taxes - VAT, and car tax (if the car was registered before 12 November 1992) but not vehicle excise duty (road tax) or the new car registration fee
- delivery charges (including VAT)
- the list price of an accessory fitted before the car was first made available to the employee, including VAT, delivery and fitting charges
- the list price of an accessory or set of accessories (eg. alloy wheels) with a price of at least £100 (including VAT, fitting and delivery) fitted after the car was first made available to the employee. Accessories fitted after the car was made available increase the price for the tax year in which they were fitted and subsequent years. (The tax year runs from 6 April in one year to 5 April in the next).

For these purposes, mobile telephones and equipment to enable a disabled person to use the car can be ignored (see booklet 480 for further details)

From 1998-99, the cost of enabling a company car to run on road fuel gases is also ignored when calculating the price of the car. This includes both any premium on the price of a car manufactured to run on road fuel gases, or any costs of conversion.

There is an upper limit of £80,000 on the price of a car for tax purposes. Where the price of a car exceeds this figure, its price for tax purposes will be £80,000.

Example 1

Car registered 1 August 1998, supplied to employee with optional leather upholstery and alloy wheels; air conditioning fitted six months later.

List price, including VAT	£12,540
plus delivery, number plates*	£415
leather upholstery*	£875
alloy wheels*	£305
Price of car for tax purposes at time made available	£14,135
Adjustment for accessory fitted later	
add cost of air conditioning and fitting*	£1,240
Revised price of car for tax purposes	£15,375

*Including VAT

What if the car has no list price?

If the car had no UK list price when it was first registered, a notional list price is used instead. This is the price which might reasonably have been expected to be its UK list price had the manufacturer or supplier published one. Booklets 480 and CA33 give more details.

What rules apply to classic cars?

Special rules apply when at the end of a tax year a car

- is 15 years old or more, and
- has a market value of £15,000 or more, and
- the market value is higher than the list price at the time the car was first registered.

The price of these cars for tax purposes is the market value on the last day of the tax year (or the last day in the tax year on which the car is available to the employee). (The market value of a car is the price which it might reasonably have been expected to fetch on a sale in the open market on the relevant day.)

The market value must include any accessories. Values may be arrived at from valuations (e.g. for insurance), prices in the market or published prices.

What about contributions the employee pays towards the cost of the car?

Any capital contributions the employee makes - up to a limit of £5,000 including VAT - towards the cost of the car or accessories reduces the price of the car for tax purposes, pound for pound.

Capital contributions by the employee towards the cost of a classic car or accessories can be deducted from the market value, again up to a limit of £5,000.

Example 2
(The employee contributes £3,500 to cost of car)

Total price of car when made available	£13,500
less employee contribution	£3,500
Price of car for tax purposes	£10,000

Example 3
(Same car as Example 2; air conditioning added after six months; employee pays half the cost of the air conditioning)

Initial price of car for tax purposes		£10,000
Plus air conditioning (including fitting etc)	£2,000	
less employee contribution	£1,000	
Therefore price of accessory to add for tax purposes		£1,000
Revised price of car for tax purposes		£11,000

What amount does the employee pay tax on?

When you have worked out the price of the car for tax purposes, you can calculate the amount of the taxable car benefit. To do this, you need to know

- the amount of business mileage driven by the employee in the particular car during the tax year
- the age of the car

- whether the car was unavailable at any time during the tax year, and
- whether the employee was required to pay for private use of the car.

You must take each of these items into account in the order set out above when doing your calculation.

What allowance is made for business mileage?

The car benefit is

- 35% of the price of the car if it is driven less than 2,500 business miles during the tax year
- 25% if driven 2,500 to 17,999 business miles
- 15% if driven 18,000 or more business miles.

(For 1998-99 and earlier years, the full car benefit was calculated at 35% of the price of the car, and this was reduced by

- one third if the car was driven 2,500 to 17,999 business miles
- two thirds if driven 18,000 or more business miles during the tax year.)

If the car is available to the employee for only part of the tax year, the 2,500 and 18,000 business miles thresholds are reduced proportionately (see page 6).

If more than one car is provided in succession during the year, the business mileage thresholds are time-apportioned and applied separately to each car. (This is explained in more detail on pages 6-7).

If two or more company cars are available to the employee at the same time, the car benefit of any car other than the main car will be 25% of the price of the car if the employee uses it for 18,000 business miles or more a year. (For years up to 5 April 1999, the car benefit for cars other than the main car was reduced by one third if it was used for 18,000 or more business miles.)

(The 'main car' is the one the employee uses most for business travel during the period when more than one car is available.)

What are 'business miles'?

Business miles are driven on two types of journeys

- those employees have to make in the performance of their duties, and
- those employees make to or from a place they have to attend in the performance of their duties - as long as the journeys are not ordinary commuting or private travel.

'Ordinary commuting' is a journey between an employee's home and his or her permanent place of work.

Detailed guidance on the types of journey which count as business journeys is contained in Booklet 490, 'Employee Travel - A tax and NIC Guide for Employers'.

Ask your Tax Office for advice if you need to know about the different rules which applied before 6 April 1998.

What allowance is made for the age of the car?

If the car is four or more years old at the end of the tax year, the car benefit for the appropriate business mileage band is reduced by one quarter. (For 1998-99 and earlier years the car benefit was reduced by one third, after taking account of any reduction for business mileage.)

The age of the car is measured from the date it was first registered, that is, cars registered before 6 April 1996 will start to qualify for a reduction in 1999-2000.

Example 4
(Car registered 1 August 1995; price: £12,000, business mileage: 9,500)

Car benefit: 25% band (2,500 to 17,999 business miles)	
£12,000 x 25%	£3,000
less one quarter reduction for age of car	£750
Car benefit in 1999-2000	£2,250

What if the car is available for part of the year only?

If the car is unavailable for part of the tax year, the car benefit is reduced proportionately. A car is 'unavailable'

- at any time before the day it is first made available

- at any time after the last day on which it was available, or

- where it is not available for a period of at least 30 consecutive days, perhaps because it is undergoing repairs.

The car benefit continues to run even if the employee is physically unable to drive his or her company car for any reason, unless the car is unavailable as described above.

The calculation of the business mileage bands is also affected by periods when the car is not available. The bands described on page 5 apply separately to each car held during the year. If there is a change of car during the tax year, the 2,500 and 18,000 business miles limits must be reduced for each car. The reduction is calculated in proportion to the number of days for which each car was unavailable.

Example 5
Car A is available for the first 73 days of the tax year, and unavailable for the remaining 292 days. The reduced business mileage limits are calculated as follows

- the 2,500 mile starting point for the 25% band is reduced by 2,000 miles (2,500 x 292/365) to 500 miles.

- the 18,000 mile starting point for the 15% band is reduced by 14,400 miles (18,000 x 292/365) to 3,600 miles.

So, the car benefit for Car A is 25% of the price of the car for 500 or more business miles and 15% for 3,600 or more business miles.

If another car, Car B, is then provided for the rest of the tax year, use the same method to calculate the reduction to the mileage limits for Car B. This time use the period of 73 days in the tax year for which car B was unavailable.

What if the employee is required to pay for private use of the car?

Any payments the employee is required to make for the private use of the car can be deducted from the taxable benefit.

Example 6
The employee is required to pay £100 a month for the private use of the car. Business mileage 19,000. Price of car for tax purposes £22,000.

Car benefit: 15% band (18,000 + business miles) £22,000 x 15%	£3,300
less payments for private use (12 x £100)	£1,200
Car benefit	£2,100

Fuel provided for an employee's private use

There is a separate charge on employees on the benefit of free fuel provided for private motoring in a company car, for example if the employer provides fuel from its own pumps, pays for, or reimburses the cost of fuel.

The employer may also be liable to pay Class 1A NICs on the benefit of the free fuel provided for employees. (See booklet CA33 for more details.)

The value of the benefit, for both income tax and NICs, is based on the engine size of the car and whether it is petrol or diesel powered. The fuel scale charges, which are set annually in the Budget, can be found on the Form P523 that employees receive with their notice of coding for each year.

The table below shows the rates for 1999-2000.

	Engine size cc	**Fuel scale charge £**
PETROL	0-1,400	1,210
	1,401-2,000	1,540
	2,001 +	2,270
DIESEL	0-2,000	1,540
	2,001 +	2,270
Cars without a cylinder capacity		2,270

Tax is payable on the full scale charge if any free fuel is provided for private use. It is an **all or nothing charge** and can only be reduced if the car for which the fuel is provided has also been unavailable for part of the year (see page 6). However, if the employee is required to make good the full cost of all fuel used for private journeys, and does so, no fuel scale charge arises.

If more than one car was provided to the employee, there is a fuel scale charge for each car for which fuel for private travel was provided.

How is the employee's tax on a company car collected?

The tax will normally be collected through the employee's PAYE code or by an adjustment after the end of the tax year, or both.

Under PAYE (Pay As You Earn), tax is deducted from the employee's income by means of codes and tax tables which are designed, as far as possible, to ensure that the correct amount of tax is deducted during the tax year without the need for an

assessment at the end of the year. The PAYE code is made up of personal allowances and other reliefs due, less any amounts to cover taxable income, such as a company car and other benefits in kind, to which PAYE cannot be applied.

The employer normally provides information about employees' benefits in kind, including company cars, to the Tax Office so that their PAYE codes can be worked out, but employees must still include details of those benefits on their tax return if they are asked to complete one.

Who pays Class 1A National Insurance contributions ?

Only employers pay Class 1A National Insurance contributions. From 6 April 1991, as an employer, you may be liable to pay Class 1A National Insurance contributions for the cars you provide to

- directors
- employees who are paid at a rate of £8,500 a year or more, including taxable benefits and expenses payments.

Normally, a Class 1A liability will arise where the benefit of the car is chargeable to income tax on the director or employee, and the employment for which the car is available is 'employed earner's employment' under Social Security law. Full details about how Class 1A NICs are calculated is contained in booklet CA33.

How are the employer's Class 1A NICs collected?

The employer may pay Class 1A NICs to the Inland Revenue via the normal PAYE arrangements, or directly to the Inland Revenue National Insurance Contributions Office by the 'Alternative Payment Method', which offers employers an easier way to pay Class 1A NICs. Employers must pay Class 1A NICs due for the previous year by 19th July. See leaflet CA33 for further details about the payment of Class 1A NICs for the 1999/2000 tax year, and leaflet CWG5 about changes to Class 1A NICs from 6 April 2000.

What information does the employer have to provide to the Inland Revenue?

To help the Inland Revenue to get the employee's tax code right, employers must send the Tax Office a quarterly return (Form P46 (car)) as at 5 July, 5 October, 5 January and 5 April, showing employees

- first provided with a car
- provided with a change of car

- provided with an additional car
- already provided with a car, who start to earn at the rate of £8,500 or more, or become a director
- no longer provided with a car.

Employers also have to complete and send to the Tax Office, by 6 July following the end of the tax year, a form P11D showing details of all expenses payments and benefits provided for each employee. A copy of the information must be given to the employee by the same date.

What records do employers have to keep?

Employers need to keep enough records to enable them to calculate the amount of the car benefit correctly. There is a working sheet on calculating car benefits included with the P11D series of forms. The working sheet, 'P11D WS2 - Car and Car Fuel Benefits' provides a useful reminder of the type of information employers will need. It can be obtained from the Employer's Orderline on **0845 7 646 646** from 8am to 8pm, Monday to Friday, and 10am to 1pm on Saturdays, or it can be downloaded from our Internet web site at **www.inlandrevenue.gov.uk**

Finding the list price of cars and accessories

List prices may be obtained from

- the manufacturer or official importer or distributor
- specialist lists of prices in book form or on computer disk
- organisations offering specialist services providing list prices
- leasing companies
- invoice (if shown).

Where can I go for more help?

These notes do not cover every point but any Inland Revenue Enquiry Centre or Tax Office will be pleased to help you.

Our service commitment to you

The Inland Revenue and Customs & Excise are committed to serving your needs well by

acting fairly and impartially

We
- treat your affairs in strict confidence, within the law
- want you to pay or receive only the right amount due.

communicating effectively with you

We aim to provide
- clear and simple forms and guidance
- accurate and complete information in a helpful and appropriate way.

providing good quality service

We aim to
- handle your affairs promptly and accurately
- be accessible in ways that are convenient to you
- keep your costs to the minimum necessary
- take reasonable steps to meet special needs
- be courteous and professional.

taking responsibility for our service

- We publish annually our customer service aims and achievements.
- If you wish to comment, or make a complaint, we want to hear from you so we can improve our service. We advise you how to do this.

We can provide better service if you help us by

- keeping accurate and up to date records
- letting us know if your personal/business circumstances change
- giving us correct and complete information when we ask for it
- paying on time what you should pay.

Further information on customer service is available at Inland Revenue and Customs and Excise local offices, set out in our Charters, complaints leaflets (IR120 and Notice 1000) and Codes of Practice.

These notes are for guidance only and reflect the position at the time of writing. They do not affect any right of appeal.

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